

# REVIEW OF THE LEASE VARIATION CHARGE

## Report on What We Heard



### LEASE VARIATION CHARGE REVIEW

The ACT Government has commenced a review of the Lease Variation Charge (LVC). This review is intended to inform the government on how reforms made to the LVC framework in recent years are flowing through to community and development outcomes, and whether further improvements to the framework are warranted.

The LVC is the current form of a betterment tax which has been in place in the Territory since 1971. The principle underlying the LVC is that the community should share the benefit from any increase in the value of the land arising from changes to the original lease granted by the government. If this benefit is not recovered, it provides an unearned windfall from the community to private entities. The LVC compensates the community for the loss of revenue that would have been raised if the government had originally sold the lease with the higher valued lease conditions in place.



The LVC is currently set at the rate of 75 per cent of the uplift in the value of the lease. This allows the government to retain a significant proportion of the increased value for the community's benefit, while providing an incentive for leaseholders to vary leases for more appropriate purposes as the city develops.

### THE CONVERSATION

The government released a consultation paper on 14 September 2018 to facilitate engagement with stakeholders. In recognition of the complexity of the issues involved, and the likely variety of views among stakeholders, the consultation paper requested written submissions from stakeholders that respond to a number of broad questions which align with the scope of the review. Stakeholders were encouraged to include detailed evidence including industry data or project costings in support of views provided. The closing date for submissions was 17 October 2018.

### WHO ENGAGED

Twelve submissions were received from community organisations, groups representing the property and housing industry, and individual members of the community.

- ACT Law Society
- Inner South Canberra Community Council
- Kingston Barton Residents' Group
- Australian Property Institute
- AACT Council of Social Service
- Property Council of Australia
- Master Builders Association
- Griffith Narrabundah Community Association
- Evri Group
- Glen Dowse
- Housing Industry Association
- Individual (name withheld on request)



### Key insights

#### General views on the LVC

- A majority of submissions agreed with the purpose and intent of the LVC and supported its existence.
- While supporting the existence of the LVC, a number of submissions suggested potential improvements.
- A minority of stakeholders expressed the view that the LVC should be abolished, and/or replaced with a different mechanism to tax/charge value uplift.

#### Impact on development activity

- Industry based stakeholders argued that the LVC provides a significant financial disincentive for development activity.
- Data and evidence to illustrate the impact of the LVC was only provided in a small number of submissions.
- Both industry and community stakeholders expressed concerns over land valuation processes required for the calculation of the LVC.
- Community based stakeholders were concerned that the valuation process undervalued land, whereas industry stakeholders thought the calculation did not take into account associated costs and that the starting valuation was too high.
- There was also feedback that the deferred payment scheme to assist developers can be a barrier to accessing private institutional lending.

#### Lease value and equity

- The recent increase in LVC for certain additional unit titled dwellings from \$7,500 to \$30,000 was considered excessive, and impacted on equity between developments and confidence in the market.
- One stakeholder highlighted the large increase in development applications prior to the cut-off date for the new charge as having impacted on development assessment timeframes.
- One stakeholder suggested a high fixed LVC per unit creates an incentive for larger dwellings, and gross floor area should be used instead as a measure.

#### Simplicity and consistency

- Industry stakeholders considered that the framework is complex and contributing to delays in the development process.
- These stakeholders suggested improvements to simplify the administration and the design of the LVC framework.
- Proposals for simplification and extension of codified LVC were suggested in some submissions.

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### Housing affordability

- Industry stakeholders expressed the view that the LVC negatively impacts housing affordability by increasing development costs and putting an upward pressure on prices.

### Alignment with Planning Policies

- Some stakeholders acknowledged that while overall development activity continues to be strong, the LVC reduces the incentive to undertake certain types of projects such as townhouses and smaller scale infill development.

### Providing an incentive for better outcomes

- Industry based stakeholders suggested reducing the LVC payable to create an incentive for construction of affordable housing.
- While industry stakeholders viewed LVC incentives as important to encourage targeted outcomes, community stakeholders questioned the efficacy of incentives such as remissions, suggesting these should be abolished.
- Multiple submissions also stated that any incentives should be accompanied by clear and transparent criteria.

### Additional issues raised in submissions

- Industry stakeholders suggested that the community will benefit from more amenities if developer-led public works are offset in the calculation of LVC.
- Community stakeholders advocated against the transfer of community purpose concessional leases, especially where this was accompanied by a reduction or waiver of the LVC and other charges. They considered that these come at the community's expense as the need for community purpose leases is increasing as Canberra continues to grow.
- A test of public benefit and greater opportunities to provide community input into proposed transfers of concessional leases were requested.

## WHAT'S NEXT?

The government is currently undertaking a detailed review of these stakeholder submissions and considering whether any changes should be made to the LVC framework. A further update on the LVC review is expected to be released in February 2019. The scope of the Review passed by the Legislative Assembly requires that any changes to charges be introduced as part of the 2019-20 Budget.

**THANK YOU FOR YOUR FEEDBACK**